

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-09 ISO-00 L-03 NSC-05 CIAE-00 INR-07

NSAE-00 PA-02 USIA-15 PRS-01 SP-02 EB-07 FRB-01

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FEAE-00 SAM-01 STR-04 /092 W
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FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 4853

INFO AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY WARSAW

USMISSION OECD PARIS UNN

USMISSION EC BRUSSELS

USINT BAGHDAD

UNCLAS KUWAIT 1133

E.O. 11652: N/A

TAGS: EFIN, KU

SUBJECT: RECENT BANKING AND UNDERWRITING DEVELOPMENTS

REF: KUWAIT 132 (NOTAL)

1. BANKING SCENE IN KUWAIT HAS BEEN ACTIVE SINCE
START OF YEAR. MOST SIGNIFICANT LOCAL DEVELOPMENT
IS POSSIBILITY THAT BANK OF KUWAIT AND BAHRAIN
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MAY BE ALLOWED TO ESTABLISH BRANCH HERE. WE HAVE

BEEN TOLD BY APPARENTLY KNOWLEDGEABLE NON-OFFICIAL SOURCES THAT BKB WILL BE ALLOWED TO ESTABLISH BRANCH IN KUWAIT, AND PRESS HAS REPORTED ALONG THESE LINES. CENTRAL BANK OFFICIALS WITH WHOM WE HAVE DISCUSSED MATTER HAVE CAREFULLY AVOIDED EITHER DENYING OR AFFIRMING REPORT.

2. SIGNIFICANCE OF BKB BRANCH IS THAT IT WOULD BE FIRST BRANCH OF NON-KUWAIT-HEADQUARTERED BANK TO BE ALLOWED TO HAVE INDEPENDENT PRESENCE HERE. HOWEVER, BKB'S OWNERSHIP IS KUWAITI AND BAHRAINI. FOLLOWING RECENT INITIATIVES AT INCREASING REGIONAL COOPERATION, INCLUDING IN FINANCIAL AREA, GOK MAY HAVE DECIDED THAT ALLOWING BAHRAINI BANK TO OPEN IN KUWAIT WAS PRUDENT, NECESSARY AND UNAVOIDABLE IN LIGHT BROADER POLITICAL OBJECTIVES. BKB BRANCH WOULD REPRESENT SOME SLIGHT LIBERALIZATION OF GOK ATTITUDE TOWARD FOREIGN BANKS, BUT, BY ITSELF, IT IS NOT RPT NOT SIGNAL THAT FOREIGN BANK BRANCHES WILL BE ALLOWED TO OPEN HERE.

3. IN OTHER BANKING DEVELOPMENTS, MORGAN TEAM HAS ARRIVED TO TAKE OVER MANAGEMENT OF BANK OF KUWAIT AND MIDDLE EAST WHICH HAD UNTIL NOW BEEN MANAGED BY BBME. SHARES OF NEW BURGAN BANK, TO BE 51 PERCENT GOK OWNED, HAVE SOLD WELL. LOCAL RUMOR MILL CLAIMS CITIBANK WILL MANAGE BURGAN, BUT RELATIVELY JUNIOR CITIBANK OFFICIAL CLAIMS HE UN-AWARE OF ANYTHING TO CORROBORATE STORY. WE ARE AWARE OF OTHER BANK MANAGEMENT CHANGES EXPECTED TO TAKE PLACE WHICH COULD VERY WELL INVOLVE OTHER U.S. BANKS HERE. ALAHLI BANK IN JANUARY ANNOUNCED ITS PURCHASE OF 35 PERCENT OF JOHANNES SCHUBACK BANK OF HAMBURG.

4. IN UNDERWRITING AREA, KUWAITI INSTITUTIONS PARTICIPATED IN RECORD NUMBER OF ISSUES BASED ON EUROBOND ISSUES ANNOUNCED IN FEBRUARY. REFLECTING HIGHLY ACTIVE MARKET APPARENTLY RESULTING FROM LOW INTEREST RATES, KUWAITI INVESTMENT COMPANIES, INCLUDING FOR FIRST TIME ARAB TRUST COMPANY, PARTICIPATED IN TWENTY-SEVEN ISSUES, TWICE 1975 MONTHLY AVERAGE. OF THESE, KUWAITI FIRMS MANAGED OR CO-MANAGED FIVE ISSUES.

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5. MOST INTERESTING ISSUE FROM KUWAITI PERSPECTIVE WAS KD 5 MILLION (KD 1 - \$3.50) LOAN TO BANK HANDLOWY WARSAWIE CO-MANAGED BY KUWAIT INVESTMENT COMPANY AND KUWAIT FINANCIAL CENTER. LOAN WAS FIRST TO POLAND BUT ONE OF SEVERAL EXTENDED IN PAST TWO YEARS TO EASTERN EUROPEAN COMMUNIST BORROWERS. INTERESTING TO NOTE THAT SOVIET DELEGATION HAS BEEN HERE IN LAST FEW DAYS TO DISCUSS FINANCIAL COOPERATION WITH KUWAITIS (SEPTEL).

6. ONE LONDON-BASED AMERICAN INVESTMENT BANKER
CRITICIZED KUWAITI LOANS TO COMMUNIST COUNTRIES. HE
CLAIMED THAT KUWAITIS WERE MAKING LOANS OR MANAGING BOND
ISSUES, PARTICULARLY KUWAITI DINAR ISSUES, TO BORROWERS
EUROPEAN-BASED BANKS WOULD NOT TOUCH. EMBOFF MENTIONED
THIS TO EUROPEAN EXECUTIVE OF LEADING LOCAL INVESTMENT
COMPANY WHO DISAGREED ENTIRELY ON BOTH POINTS. HE AR-
GUED THAT COMMUNIST BORROWERS HAD GOOD PAYMENT RECORDS,
AND IN ANY CASE, EUROPEANS WERE JUST AS ACTIVE IN LEND-
ING TO THEM AS KUWAITIS.

7. THOSE INTERESTED IN KUWAITI OR OTHER ARAB FINANCIAL
ACTIVITY AND INSTITUTIONS MAY BE INTERESTED IN SUPPLEMENT
ON ARAB FINANCIAL INSTITUTIONS AND CAPITAL MARKETS WHICH
WAS PART OF MARCH 1976 ISSUE OF EUROMONEY PUBLISHED IN
LONDON. EMBASSY WILL SEND TO DEPARTMENT COPY OF INTER-
VIEW WITH GOVERNOR KUWAIT CENTRAL BANK WHICH PROVIDES
RATHER GOOD SUMMARY OF CURRENT GOK BANKING AND LOCAL
FINANCIAL POLICIES.

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